



**California Public Employees' Retirement System**  
**Investment Office**  
P.O. Box 2749  
Sacramento, CA 95812-2749  
TTY: (916) 795-3240  
(916) 795-3400 phone  
[www.calpers.ca.gov](http://www.calpers.ca.gov)

---

## Agenda Item 4

October 17, 2011

### TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. **SUBJECT:** Revision of Global Principles of Accountable Corporate Governance (Second Reading)
- II. **PROGRAM:** Total Fund
- III. **RECOMMENDATION:** Recommend to the Investment Committee approval of the revisions of the CalPERS Global Principles of Accountable Corporate Governance
- IV. **ANALYSIS:**

#### Executive Summary

The Global Principles of Accountable Corporate Governance (Global Principles) provide the framework for CalPERS proxy voting responsibilities, corporate engagements and governance initiatives, which are intended to contribute to long-term sustainable risk adjusted investment returns.

The recommended revisions include new and updated sections on Board Talent Assessment and Diversity, Executive Compensation, Integrity of Financial Reporting, Risk Oversight, and Corporate Charitable and Political Contributions.

Staff is bringing the Global Principles back for a second reading following requested amendments by the Policy Subcommittee at its September 12, 2011 meeting. These amendments are shaded in the Global Principles and include:

- Board Talent Assessment and Diversity – to introduce language related to continuing director education (pg. 9 – Section 2.2b).
- Integrity of Financial Reporting – removal of “independent gatekeeper” (pg. 14 – Section 4.3).
- Charitable and Political Contributions – language requesting board accountability for the development and disclosure of policy related to the approval of charitable and political contributions (pg.19 – Section 6.5a). In developing this language staff reviewed emerging best practice in the

business and investor community through forums such as the Council of Institutional Investors (CII), the International Corporate Governance Network (ICGN), and The Conference Board (a business led group). Staff has also reviewed portfolio company disclosures (attached are example policies from Pfizer, US Bancorp, and Prudential).

**Attachment 1:** Wilshire Associates opinion letter

**Attachment 2:** The Global Principles of Accountable Corporate Governance (double black-lined version) – Second Reading

**Attachment 3:** Corporate Political Disclosure Examples in line with CalPERS proposed principles:

- a. Pfizer
- b. US Bancorp
- c. Prudential

### **Amendments to CalPERS Principles**

Below is a summary of staff's recommended amendments to the Global Principles document. These amendments were included in the draft presented at the September 12 Policy Subcommittee meeting, and are highlighted in the attached document.

- Board Talent Assessment and Diversity – highlights succession planning and broadening the director pool of talent to ensure access to the skills and experience needed to fulfill a company's strategy.
- Executive Compensation – supports CalPERS corporate engagements, "say on pay" voting which was introduced via Dodd-Frank; links compensation to business strategy, long-term performance, risk hurdles, and disclosure of relevant environmental and social targets.
- Integrity of Financial Reporting – support integrated reporting, international convergence, the auditor's role, and enhanced reporting to investors, including environmental and social factors; recommendations based on corporate engagements.
- Risk Oversight – board accountability on matters related to the management of risk; recommendations developed from Financial Sector engagements.
- Charitable and Political Contributions – new principle added to the Corporate Responsibility section; supports board oversight, accountability, and transparency in corporate political spending and reporting.

### **Next Steps**

- Staff will update CalPERS Global Principles and make accessible on the CalPERS website upon approval by the Investment Committee.
- Translate the Global Principles to Chinese, French, Japanese, German, Spanish and Portuguese.

### **V. RISKS:**

A failure to implement the requested amendments would impede the development of the Global Principles of Accountable Corporate Governance which need to address emerging issues in corporate governance best practice.

### **VI. STRATEGIC PLAN:**

This item supports Goal VIII to manage the risks and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and, second to minimize and stabilize contributions.

### **VII. RESULTS/COSTS:**

Costs associated with this item are expected to be absorbed within the Investment Office budget.

---

TODD MATTLEY  
Investment Officer  
Corporate Governance

---

ANNE SIMPSON  
Senior Portfolio Manager  
Investment Office  
Corporate Governance

---

JANINE GUILLOT  
Chief Operating Investment Officer

---

JOSEPH A. DEAR  
Chief Investment Officer